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Is Used Oil Recycling in Jeopardy?
EPA Sets UST Noncompliance Penalties
Oil/Auto Fuels Study Reveals First Results

National Petroleum News

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Editor's Viewpoint

As the editor of *NPN* I realize the significance of being as intelligible as possible. And I know how important it is to you when you're reading the copy in this magazine. Based on a recent event, maybe it's time to convey this philosophy of clarity to the Environmental Protection Agency.

The news item that begins on page 21, entitled "EPA lowers penalty boom for UST noncompliance," is simply mindboggling.

Our reporter, Angel Abcede, did a yeoman's job of trying to interpret the EPA's newly released set of penalty procedures for failure to comply with the federal underground storage tank requirements.

The EPA's penalty "formulas" are yet another indication of how that agency can get tangled up in its own rhetoric. I must admit that my mind was completely numb after reading this exercise in superfluous, meandering, run-on commentary by the federal government. We all appreciate the EPA's efforts and mission, but there must be an easier way, or one that's at least understandable.

According to the report, EPA inspectors will combine the economic benefit and gravity-based components of a cited violation to get an initial penalty figure. However, this figure may be adjusted based on your ability to pay. And, of course, a bunch of other influencing factors.

For all practical purposes, EPA enforcement officials will calculate the degree of the violation and through various formulas determine a penalty amount. These formulas are supposed to take into account a wide variety of factors, including the amount of economic benefit gained from not complying (such as avoided or delayed costs), what harm the surrounding community suffered and how far the marketer has deviated from the rules.

When all is said and done I still don't know exactly what it will cost you if you fail to comply.

I guess what I deciphered from the report is that if an EPA inspector issues a citation it's going to cost you anywhere from $100 to $50,000 plus. As you are all painfully aware, the EPA is not adverse to issuing some hefty fines.

Really, EPA, I think you could have simplified this complex yet very important document considerably. Maybe you should add a good country editor to your staff.

Test: Do you know what "baseballs" mean in drug street lingo? How about "corn dogs"? If you don't know the answer to these questions you might want to peruse the informative substance abuse article by Don Smith that begins on page 28. Honestly, I never realized just how naive I really am about drugs and substance abuse or about how pervasive and tragic the deadly trade really is.

—Peggy Smedley

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Do you have a drug abuse problem in your workplace? You might have one—and not be aware of it. Here are some things you should know about illegal drug use.

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Until recently, waste oil wasn't a problem for marketers. But it is now, and it's one marketers should be informed about.

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The Persian Gulf crisis has disrupted the oil market at every level. In California, Unocal and Chevron dealers picketed to get relief on prices, margins and rents.

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• TRENDS

Another Bullet to Bite: What Is the SPR?

When it was created a decade ago, the Strategic Petroleum Reserve (SPR) was intended to be a locked-in supply of crude oil that could be tapped in the event of another global emergency and enable the American oil companies and the American people to weather petroleum product crises for a three to six-month period.

No one could really disagree with the concept, that is, buy the crude at the lowest possible price and stash it somewhere in the Southwest, not far removed from the many refineries there that hook up with virtually all of the major supply lines.

Nothing to it, really. Once the underground reservoirs were filled, it was believed, U.S. consumers would be assured of products for three to six-month periods depending upon the nature of the crisis, the rate of drawdowns and/or the availability of replacement supplies from other countries.

About a billion gal. would be right. No hurry. Just keep dumping it in so that within a decade the reservoirs would be full. Just like money in the bank. For crisis use only. The federal government would pay for it and oil companies essentially would be home free.

Technically, the SPR was created to counterbalance the OPEC countries, which had treated American consumers and the world at large to the two great supply crises in the early '70s and early '80s. But that's not the way things are turning out now. As a result there has to be some bullet-biting in the months ahead to decide SPR's exact future. These questions need to be answered: Is it going to be strictly a reserve, for emergency use only? Or is it going to be something else again that can be made responsive to other political/economic games entirely?

For example, in the last quarter of '90, while the current Persian Gulf crisis flowered from panic and price spikes, the greatest pressure was not on the reserves to fulfill their intended role as a source of emergency supply but on an entirely new and unintended role as a mechanism to hamstring the skyrocketing of product prices.

There were no world shortages of crude oil in the fourth quarter; in fact, there was a glut then and there is still one now. But speculators played havoc with prices. The futures market, instead of being a price-discovery mechanism, inadvertently became an overnight price-setting mechanism and a source of great profits for foreign producers, domestic suppliers and even some jobbers and distributors. Witness, for example, the calm statement of Amerada Hess that it made more than $220-million in the fourth quarter just playing the futures market. No other oil company matched that statement, but unquestionably quite a number of them matched the profits.

There were great pressures from domestic suppliers and petroleum marketers in the fourth quarter to tap the SPR now to curb the gasoline price spikes and cool the marketplaces. Some was released presumably to confirm that the withdrawal mechanism would work properly. But a lot of people must have been wearing rose-colored glasses out there, looking for who knows what kind of a miracle to happen.

Now that prices are abating, the furor has died down for the moment. There are no shortages, no supply problems. Even if the Persian Gulf crisis would evaporate overnight, which is not very likely, the SPR identification problem will not go away. Sooner or later, that bullet must be bitten and the government and the industry will have to decide once and for all whether what they want is an insurance trove of crude oil reserved strictly for emergency use or whether they're amenable to some kind of a watered-down insurance policy that could be triggered by other "emergencies" that would only deplete the reserves but not solve the problems?

—By J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

NOVEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.432	$1.351	$1.377	$1.559
Regions				
Northeast	1.510	1.329	1.437	1.638
North Central	1.404	1.341	1.363	1.546
South	1.409	1.345	1.343	1.520
West	1.427	1.355	1.394	1.557

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	12/28/90	1/29/89
Gasoline (Total)	223,562	216,932
Gasoline (Unleaded)*	174,115	161,761
Jet Kerosine	45,303	36,290
Distillates	130,110	108,189
Residual	49,519	44,016

**Included in gasoline total.*
Source: American Petroleum Institute.

Futures Market Stiffens Rules to Curb Price Spikes

New York Mercantile Exchange (NYMEX), which has been both damned and praised for the futures market it sponsors and controls, has voluntarily implemented some trading restraints designed to dampen the wild price gyrations in crude oil and petroleum products in recent months.

Rather than wait for the approval that must come from the Commodity Futures Trading Corp. (CFTC), NYMEX's board put the new rules into effect in mid-December on an interim basis. CFTC is expected to okay them, but there's always the possibility that it may make them even tougher in the process.

The futures markets, and particularly the investment actions of speculators, have been blamed for precipitating price spirals unjustifiably and often on the basis of marketplace rumors spread at fantastic speeds via the computer screens that are routine equipment in modern offices and brokerage firms.

Petroleum prices, for example, skyrocked in the wake of the Iraqi invasion of Kuwait on August 2, touching $40 bbl. for crude and forcing pump prices for gasoline into the $1.50 gal. area, up maybe 50% in several weeks.

Oil marketing groups working with NYMEX officials said the changes were "good, but they didn't go quite far enough."

The Exchange is, for the first time, putting price limits on the spot month of the NYMEX energy contracts while at the same time expanding limits on the second month.

Most of the rule changes are technical, so much so that participants are virtually the only ones who understand them. The objective, however, is to strengthen the regulations to ensure efficient operations during times when world events create rapid changes in the price of crude oil and petroleum products.

The regulations include a mandatory "pause period" when pit actions and price changes heat up too much.

Chairman Z.L. Guttman says, "Price discovery and risk shifting are particularly critical in the event of the rapid and potentially large price movements which could be created by a peace settlement [in the Persian Gulf] or an announcement of war. Unnecessary interruption or inhibition of NYMEX could cause dire financial consequences to parties cumulatively hedging billions of dollars on energy price risk."

Guttman's comment on market interruptions related to a Senate hearing wherein it was suggested that perhaps the futures market would have to be closed down in the event of war. He was quoted as saying that the Exchange "would fight like hell to keep anyone from intruding in our business affairs."

Guttman also made this comment:

"We believe that the limits imposed on the front months are broad enough to permit accurate market pricing. The temporary cessation provides a market pause to grant the opportunity for additional information dissemination, the review of margins and other financial considerations, consultation between government officials and the Exchange Board and staff and for Clearing Members to communicate with their customers."

OPEC Commits Itself to Pre-Crisis Production Quotas to Cool Prices

Although their performance record to date has been far from good, the 13 members of the Organization of Petroleum Exporting Countries (OPEC) have agreed to go back to their pre-crisis crude oil production quotas once the Persian Gulf confrontations are resolved.

The OPEC resolution, signed in Vienna in mid-December, pledges the membership to reinstate the output ceiling of 22.5-million b/d that was in effect when Iraq invaded Kuwait on August 2 and absorbed it into its own holdings.

At the end of December, the OPEC countries collectively were producing more than 23-million b/d, more than making up for the 4-million b/d that went down the tubes when Iraqi troops confiscated Kuwait.

With a glut of crude and products already on hand, there are fears that continued over-production and a softening of the crisis could cause a price drop equaling or exceeding the collapse of 1986.

Crude prices, which skyrocketed to the $40 bbl. level in the wake of the Iraqi invasion—about twice as high as they should have been normally—were down about 25% by the end of the year. The 1986 trauma dropped them to less than $10 bbl.

Here's a brief recap of the OPEC quotas at the end of 1990:

Country	Basic Quota	Aug. 1 Prod.	Dec. 31 Prod.
		(Million b/d)	
Saudi Arabia	5.4	5.3	8.1
Iran	3.1	3.0	3.5
Iraq	3.1	3.1	0.3
Un.Arab Emirs.	1.5	2.2	2.4
Kuwait	1.5	1.6	0.1
Qatar	0.4	0.4	0.4
Nigeria	1.6	1.7	1.7
Libya	1.2	1.3	1.6
Algeria	0.8	0.8	0.8
Gabon	0.2	0.3	0.3
Venezuela	1.9	2.0	2.5
Ecuador	0.3	0.3	0.3
Indonesia	1.3	1.3	1.3
Totals	22.5	23.2	23.4

(Quota and August 1 stats are from International Energy Agency, Paris, and year-end stats are estimates by industry sources. Some OPEC members are already operating at capacity levels and cannot increase their output in 1991.)

EIA Says Price Hikes Justified

The uncertainty of crude oil supply was a major factor in the rise of gasoline prices last summer, according to a report released this past November by the Energy Information Administration (EIA), an independent statistical and analytical agency within the Dept. of Energy.

The EIA says the price of oil in the wake of the Iraqi invasion of Kuwait last August was determined by supply and demand. The report, entitled *Petroleum Prices and Profits in the 90 Days Following the Invasion of Kuwait*, says there was no indication that the market system failed.

Although worldwide stocks of oil were at near-record levels, the uncertainty of the invasion and of replacement supplies fueled high prices, the reports says.

Crude oil prices then remained high due to concerns over the ability to meet peak fourth-quarter demand for petroleum products; the vulnerability of replacement crude to disruption and the exhaustion of world excess production capacity, the report concludes.

The retail price of gasoline did not increase as fast as the price of crude oil, the report says. And by the end of 90 days, increases in pump prices were below, but approaching the price of crude oil, the report adds.

Concerning major oil company profits, the EIA observed "mixed results" for the months of July, August and September. Companies that owned a significant amount of the crude oil saw profits rise, while companies that had to buy crude oil or petroleum products at higher prices were hurt, the report says.

Marketer's Tax Corner

Irving L. Blackman

Family Businesses Await Next Generation

American business is graying. The guys who fought in World War II came home in droves. It is estimated that over 1-million entrepreneurs started businesses after the war. The successful businesses are now being transferred to the children of those ex-servicemen.

But even more importantly, owners of family businesses are frequently calling my office, consulting, then implementing plans to transfer their businesses to their children. How heartwarming! For years, we heard business owners talk, but do nothing, about putting a transfer plan into effect. Now these businessmen are taking serious action.

One question is central to all transfer plans. What is your business worth exactly? Whether your transfer plan is a sale of the business to the children, a gift, a redemption or some other method or combination of lifetime transfer methods, the same big question still remains—What is it worth?

Since the business itself is almost always the biggest dollar-value asset of a family business owner, its value is critical to both the transfer plan and the estate plan.

However, only about 5% of the owners really know what their business is truly worth (usually the result of an appraisal) that about 50% of the owners greatly overvalue their business and about 45% of the owners use book value (rarely the right method) as the measure of the business' worth.

You wouldn't set the price on an item or service you were about to sell until you determined the cost, would you? The same logic applies to developing a transfer-your-business plan. The fair market value of your business dictates the potential estate tax cost. The message is crystal dclear. You must know this cost. If you plan to sell or transfer your business, it is essential to have your business appraised.

Want to discover more about these tax-saving subjects? Send for the companion special reports *How to Value Your Business for Tax Purposes* ($21) and *Transfer Your Corporation to the Next Generation...Tax Free* ($25). Both reports are available for $37. Send your request to Blackman Kallick Bartelstein, 300 S. Riverside Plaza, Chicago, IL 60606.

What Are Your Chances Of An IRS Audit?

During 1989, a total of 985,000 individual income tax returns were selected and subjected to the anxiety of an Internal Revenue Service (IRS) audit. Adding up all the numbers, this means that 92 income tax returns out of 10,000 filed were examined in 1989, down a notch from the 103 per 10,000 in 1988.

But don't get overconfident that these low percentages don't apply to you. The higher your income, the greater the chance the IRS will pay you a visit. And "Read my lips"—your chance of an audit will increase in the '90s. The Bush Administration has hired more agents for IRS audit duty.

The following chart highlights the chances that your personal income tax return will be audited based on 1989 figures:

Total Positive Income	Chances in 10,000 of Being Audited
Under $25,000	59
$25,000 to $50,000	100
$50,000 and over	181

Just how big is the massive task the IRS has each year in tracking down tax cheats? The Service received 107-million individual returns in 1989, plus millions more of corporation. partnership and trust returns.

The chances of having your business or company audited by an examining agent increased in 1989 compared with a year earlier, especially for many corporations. However, your chances of entertaining an examining agent in 1989 decreased if you operated a small, unincorporated business.

Here's the breakdown for noncorporate businesses and for corporations:

Noncorporate Business Income: Schedule C	Chances in 10,000 of Being Audited 1989	1988
Under $25,000	131	145
$25,000 to $100,000	192	212
$100,000 and over	379	420

Corporations (in assets)	Chances in 10,000 of Being Audited 1989	1988
Under $250,000	117	72
$250,000 to $500,000	167	81
$500,000 to $1-mil.	173	111
$1-mil. to $10-mil.	358	320
$10-mil. to $100-mil.	1,934	1,876
$100-mil. and above	5,304	5,354

Less than 2% of gift tax returns filed in 1989 were audited. Estate tax returns, on the other hand, were looked over closely, as follows:

Chances in 10,000 of Being Audited Based on Gross Estate	1988	1989
Under $1-mil.	1,793	1,709
$1-mil. to $5-mil.	2,907	3,056
$5-mil. and above	5,130	6,700

And some advice to each reader who faces an IRS audit: Hire the best tax professional you can find.

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